# QUALIFIED FINANCIAL ADVISER (QFA) INVESTMENTS EXAM 2 PRACTICE TEST (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

https://qfainvestments2.examzify.com

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

# Table of Contents

# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

# Questions

**1. Which risk is associated with inflation eroding purchasing power?**

A. Market Risk

B. Currency Risk

C. Interest Rate Risk

D. Inflation Risk

**2. In Ireland, the financial services market enables providers to collect surplus funds as savings and lend them at a margin to which groups?**

A. Individuals only

B. Individuals, businesses and the Government

C. Businesses only

D. Individuals and businesses only

**3. Which of the following would be considered traditional investment asset classes?**

A. Bonds and Equities.

B. Bonds and Gold.

C. Gold and Equities.

D. Bonds, Gold and Equities.

**4. Which risk refers to the ease with which an asset can be sold without affecting its price?**

A. Inflation Risk

B. Credit Risk

C. Market Risk

D. Liquidity Risk

**5. What would be the total expected return on equities given a dividend yield of 3% and capital growth of 2%, with a risk free rate of 2%?**

A. 2%

B. 3%

C. 5%

D. 7%

**6. What is Monte Carlo simulation used for in investment planning?**

A. Simulates many possible future paths for returns and cash flows; estimates probability of achieving goals and tail risks.

B. Predicts exact market crashes.

C. Identifies the single best path for investment.

D. Replaces human judgment.

**7. Irish REIT restrictions include which combination of requirements?**

A. At least 75% of income derives from property rental and at least 75% of assets relate to property rental.

B. At least 75% of income derives from property rental and it must wind up after seven years.

C. At least 75% of assets relate to property rental business and it must wind up after seven years.

D. At least 75% of income derives from property rental; At least 75% of assets relate to property rental; It must wind up after seven years.

**8. Which statement about diversification is true?**

A. Diversification benefits increase when asset correlations rise.

B. Diversification benefits are unaffected by correlation.

C. Diversification benefits decrease when asset correlations rise.

D. Diversification benefits increase when asset correlations rise.

**9. In relation to deposits, the term AER means the:**

A. The gross deposit return, expressed as the equivalent annual rate of interest payable at the end of the year.

B. The annual rate of return provided by the deposit, for a typical average deposit size, after deposit interest retention tax (DIRT).

C. The impact of deposit charges and fees, expressed as an annual reduction in yield over the deposit term.

D. The average gross return offered by a selection of deposit takers, for a given deposit amount.

**10. Which of the following is a limitation of the Black-Scholes option pricing model?**

A. It prices options perfectly in all market conditions

B. It assumes constant volatility

C. It uses a deterministic interest rate but not volatility

D. It includes taxes and dividends

# Answers

1. D
2. B
3. A
4. D
5. C
6. A
7. A
8. C
9. A
10. B

# Explanations

### 1. Which risk is associated with inflation eroding purchasing power?

A. Market Risk

B. Currency Risk

C. Interest Rate Risk

D. Inflation Risk

*Inflation eroding purchasing power is about the real value of money and returns declining as prices rise. The risk here is inflation risk—the danger that rising prices outpace your investment returns, causing the purchasing power of your money to shrink over time. Market risk involves overall price swings in markets, currency risk is about changes in exchange rates, and interest rate risk is about how fluctuating rates affect asset values, especially bonds. Inflation risk is the specific concern when the concern is losing real buying power because prices increase faster than your returns. For example, if prices rise 3% in a year but your investment earns only 2%, your real purchasing power falls even though you earned a positive nominal return.*

### 2. In Ireland, the financial services market enables providers to collect surplus funds as savings and lend them at a margin to which groups?

A. Individuals only

B. Individuals, businesses and the Government

C. Businesses only

D. Individuals and businesses only

*The main idea is that financial intermediaries collect surplus funds from savers and lend them out at a margin to different types of borrowers. In Ireland, these borrowers include individuals (for mortgages and personal loans), businesses (for investment and working capital), and the Government (to fund public spending through debt). The margin comes from the difference between the interest paid to savers and the interest earned on loans and securities, which lets providers earn a return while facilitating funding across the economy. Because savers' funds are channeled to all three groups, the correct answer includes individuals, businesses, and the Government.*

### 3. Which of the following would be considered traditional investment asset classes?

A. Bonds and Equities.

B. Bonds and Gold.

C. Gold and Equities.

D. Bonds, Gold and Equities.

*Traditional investment asset classes are broad categories of investable assets with distinct risk and return profiles used as core building blocks in portfolios. The two classic traditional asset classes are equities (ownership in companies, with potential for capital growth and dividends) and bonds (debt instruments, providing income and generally lower risk than equities).  Gold, while a widely used investment and a common diversification tool, is a commodity rather than a traditional core asset class. It doesn't generate income in the way bonds do and its price behavior isn't driven by the same cash-flow dynamics as equities. So the pair that fits the traditional framework is bonds and equities.*

## 4. Which risk refers to the ease with which an asset can be sold without affecting its price?

A. Inflation Risk

B. Credit Risk

C. Market Risk

D. Liquidity Risk

*Liquidity is about how easily an asset can be bought or sold in the market without causing a significant price change. The risk in question focuses on selling quickly and at a fair price, which is exactly what liquidity risk captures. When an asset is highly liquid, you can enter or exit positions with little price impact; when it's illiquid, selling rapidly may require accepting a much lower price or waiting a long time for a buyer. Inflation risk relates to the eroding value of money over time, not to how easily an asset can be sold. Credit risk deals with the possibility that a borrower defaults. Market risk involves broad price movements due to overall market factors, not the ease of selling. So the term that best describes the ability to sell an asset without affecting its price is liquidity risk.*

## 5. What would be the total expected return on equities given a dividend yield of 3% and capital growth of 2%, with a risk free rate of 2%?

A. 2%

B. 3%

C. 5%

D. 7%

*Total return on equities combines the income you receive from dividends with the gain from rising stock price. Here, the dividend yield is 3% and the expected capital growth is 2%, so you add them: 3% + 2% = 5%. The risk-free rate of 2% isn't part of this calculation; it serves as a baseline for comparing risk, not a component of the equity's total return. So the total expected return is 5%.*



## 6. What is Monte Carlo simulation used for in investment planning?

A. Simulates many possible future paths for returns and cash flows; estimates probability of achieving goals and tail risks.

B. Predicts exact market crashes.

C. Identifies the single best path for investment.

D. Replaces human judgment.

*Monte Carlo simulation in investment planning uses random sampling to generate thousands of possible future paths for returns, cash flows, and other variables based on specified probabilities and correlations. By examining the spread of outcomes from these many scenarios, you can estimate how likely you are to reach a target and assess tail risks—the chances of very unfavorable results. This approach is the best because it acknowledges uncertainty and shows a probabilistic picture of outcomes, not a single forecast. It accounts for variables like sequence of returns, inflation, withdrawals, and fees, helping you understand how changes in assumptions affect the likelihood of achieving goals. It does not predict exact market crashes, identify one definitive "best" path, or replace human judgment; it's a tool to inform decisions and stress-test plans.*

## 7. Irish REIT restrictions include which combination of requirements?

A. At least 75% of income derives from property rental and at least 75% of assets relate to property rental.

B. At least 75% of income derives from property rental and it must wind up after seven years.

C. At least 75% of assets relate to property rental business and it must wind up after seven years.

D. At least 75% of income derives from property rental; At least 75% of assets relate to property rental; It must wind up after seven years.

*To qualify as an Irish REIT, the business must be real estate-focused in both what it earns and what it owns. The rules require two thresholds to be met: at least 75% of gross income must come from property rental, and at least 75% of the assets must relate to property rental. This two part test ensures the entity operates primarily as a real estate investment vehicle. The idea of winding up after seven years isn't part of the Irish REIT restrictions, so a requirement to dissolve after seven years isn't correct. In practice, REIT status is ongoing as long as the qualifying income and asset tests (and other regime conditions, like the distribution rule) are satisfied. For extra context, REITs must distribute a substantial portion of property income to investors, further supporting their tax-advantaged status.*

## 8. Which statement about diversification is true?

A. Diversification benefits increase when asset correlations rise.

B. Diversification benefits are unaffected by correlation.

C. Diversification benefits decrease when asset correlations rise.

D. Diversification benefits increase when asset correlations rise.

*Diversification reduces risk by mixing assets that don't move together. The strength of that risk reduction depends on how closely their returns are correlated. When correlations rise, assets tend to move in the same direction, so the portfolio's overall volatility doesn't drop as much as with lower correlations. In other words, the cross-effects that help damp risk become larger as correlation goes up, making diversification less effective. As correlations approach 1, the diversification benefits essentially vanish. That's why the true statement is that diversification benefits decrease when asset correlations rise.*

**9. In relation to deposits, the term AER means the:**

A. The gross deposit return, expressed as the equivalent annual rate of interest payable at the end of the year.

B. The annual rate of return provided by the deposit, for a typical average deposit size, after deposit interest retention tax (DIRT).

C. The impact of deposit charges and fees, expressed as an annual reduction in yield over the deposit term.

D. The average gross return offered by a selection of deposit takers, for a given deposit amount.

*AER represents the annual equivalent rate of return on a deposit, stated as the gross rate and expressed as if interest were compounded annually. It shows the amount of interest you would effectively earn over a year, assuming the benefit of compounding is realized, and it is provided before tax. This makes it a consistent, comparable measure across deposits with different interest frequencies and compounding periods. That's why the description of the gross return as the equivalent annual rate payable at the end of the year is the best fit. It isn't after tax (which would involve DIRT in some contexts), and it doesn't account for deposit charges or represent an average across providers.*

**10. Which of the following is a limitation of the Black-Scholes option pricing model?**

A. It prices options perfectly in all market conditions

B. It assumes constant volatility

C. It uses a deterministic interest rate but not volatility

D. It includes taxes and dividends

*The key limitation here is that volatility is treated as a fixed input in Black-Scholes. The model assumes the underlying asset's volatility stays constant over the life of the option, but in real markets volatility changes over time and with conditions like crises or calm periods. This mismatch means options can be mispriced when actual volatility moves away from the assumed level, and it also prevents the model from capturing patterns like volatility smiles or skew. While other simplifying assumptions exist (such as constant interest rate and no dividends in the basic version), the specific limitation being tested is the constant volatility assumption.*

# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://qfainvestments2.examzify.com

We wish you the very best on your exam journey. You've got this!